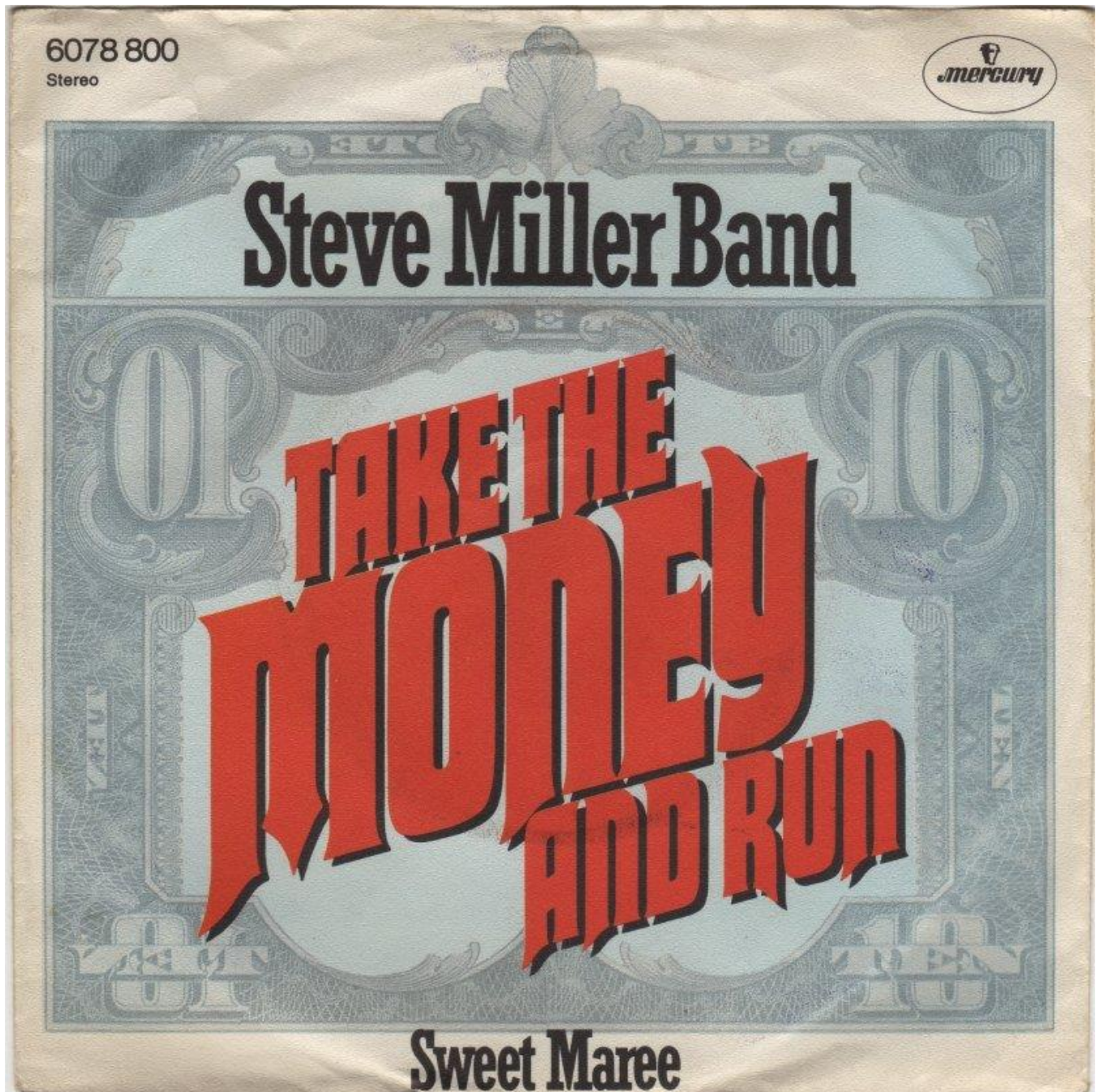


Listen to Steve Miller



With the money floodgates open full blast, it's time for borrowers of every stripe to listen to the words of Steve Miller and take the money, every last red cent, and run! It's there, it's abundant, and you are going to need it. Any corporate management team with sense and sensibilities, is going to use this moment to clean up the balance sheet as best they can, as

the type of liquidity being provided right now is not likely to be seen again in many of our lifetimes. So, get on board the raft, grab an oar, and ride this one like never before.

Monday's New Day Dawn

One of the upsides to the Monday afternoon delivery format is getting to wait and see what the first day of the trading week looks like, and today was a doozy. Index futures were bid slightly higher pre-market on the back of a Jay Powell appearance on 60 Minutes, where he talked about there being no end to what assets the Fed could purchase. He is concerned about the long-term impact of the COVID 19 pandemic and what it means for growth. If you missed it, here is the [full interview](#).

A Distant Fed Chairman

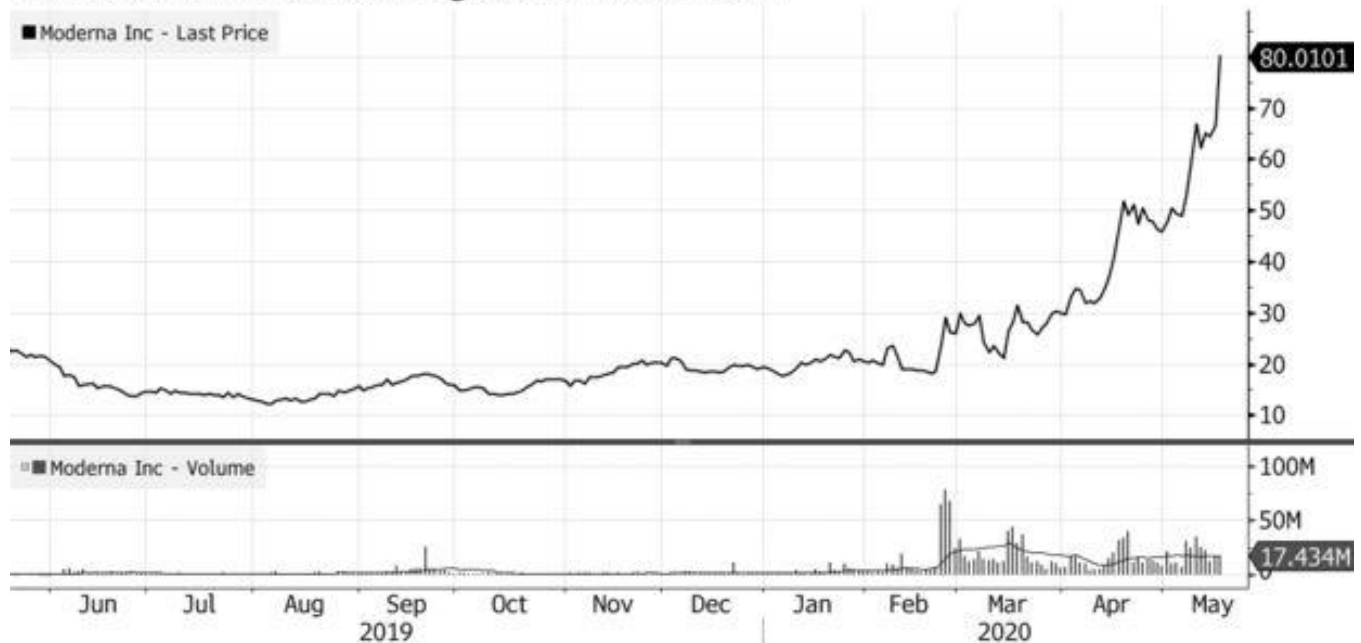


Just prior to the open, the markets began absorbing the news that the Boston based biotech firm Moderna, had seen positive results from eight patients involved in Phase I trials for a COVID-19 vaccine. The company plans to conduct Phase II trials on 600 patients 'shortly', and then a Phase III study in July that would involve thousands. If all goes well, the vaccine would be available by the end of the year. Wall Street drank up the news like a sailor on shore leave, with all the major indexes up over 3.0%, and the riskier sectors up even more.

COVID Cure

Moderna Keeps Climbing

Shares are at an all-time high after vaccine data



Source: Bloomberg

Bubbles, Bubbles Everywhere

The drum we have been banging as of late, is that horrible economic numbers being printed don't matter, and neither do the warnings for corporations about the long-term impact the pandemic is having on current fundamentals. Instead, the market is focused on the aforementioned flood of liquidity, and improvements on the margin, like the new vaccine results. So instead of the usual bottom-up and top-down tour around the horn, this week we are going to focus on the bubbles, both good and bad, that are popping up everywhere.

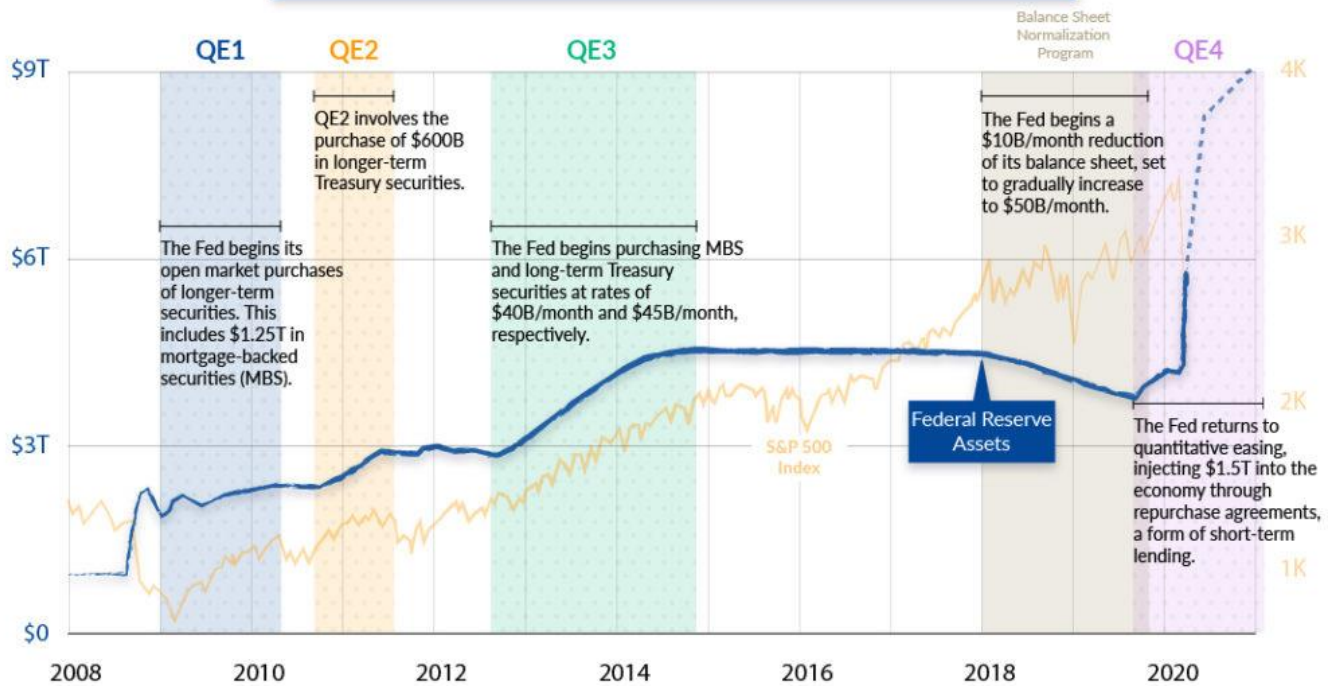
Big & Small, Bad & Good



First up, the biggest bubble of them all, the Federal Reserve balance sheet. This one matters most in terms of asset prices, because it has a near scratch record of supporting prices and acting like the ultimate backstop. For those who thought QE was in the winddown phase, you were wrong. The balance sheet expansion seen this go around will take years, if not decades, to unwind. And if inflation never shows up, which some think it won't, this will be the biggest theoretical 'free lunch' ever.

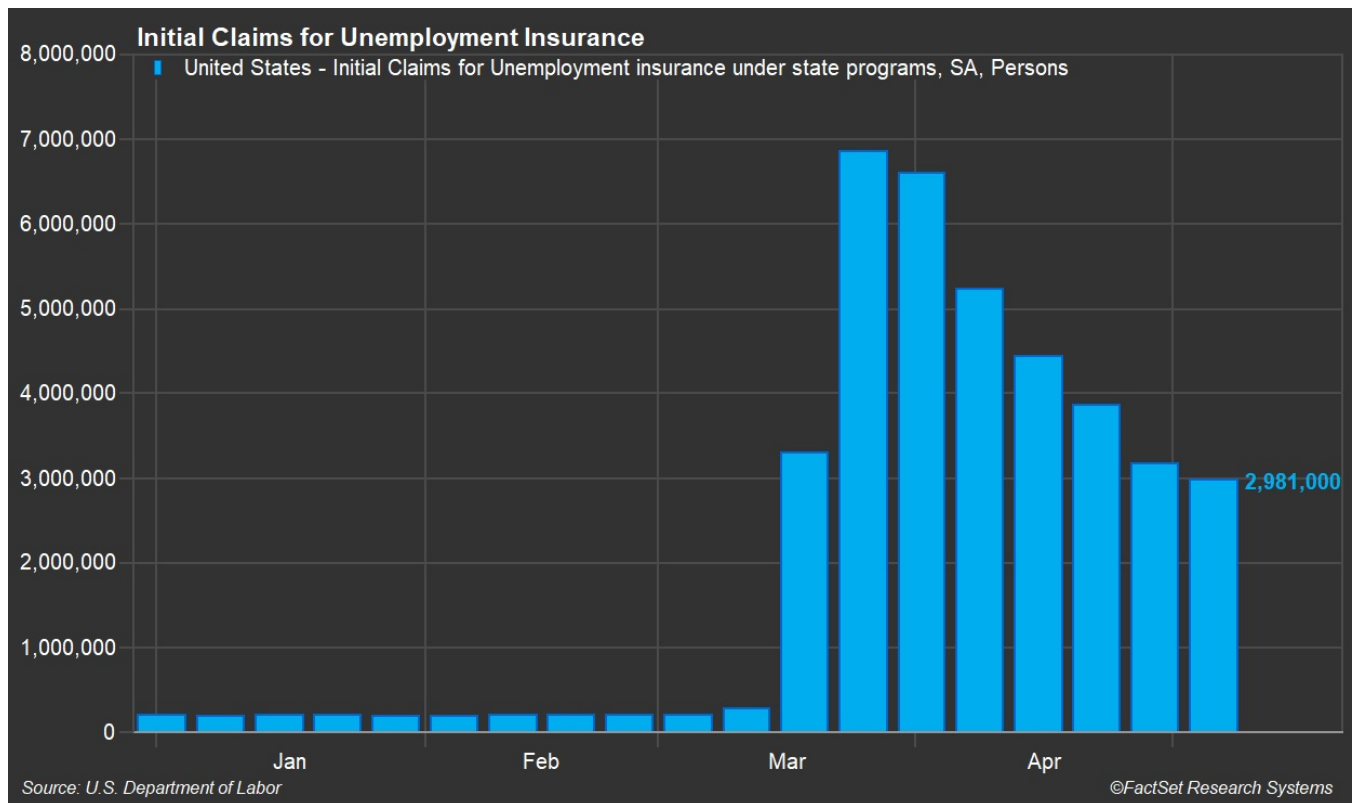
The QE to End All QEs

TOTAL ASSETS OF THE U.S. FEDERAL RESERVE



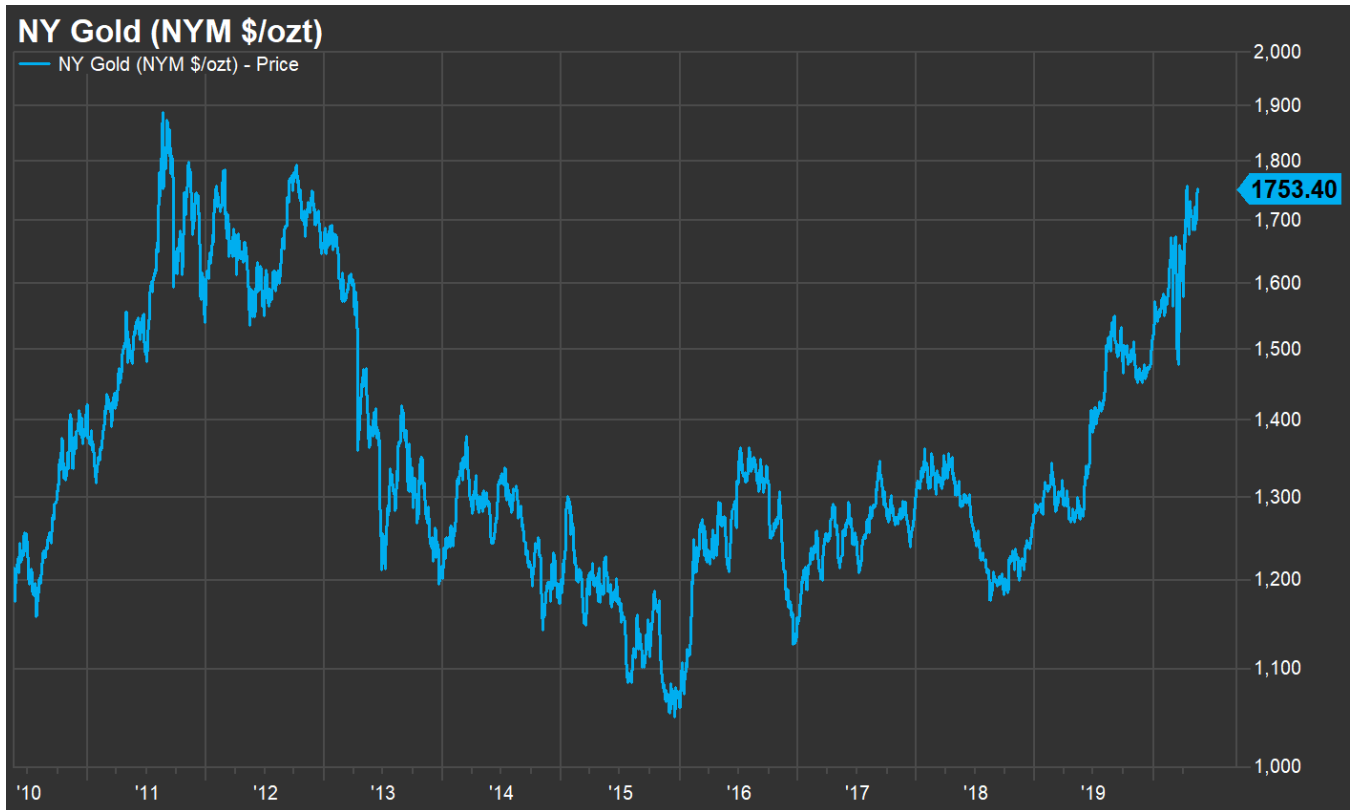
Unemployment is in a bubble that will deflate to a certain extent, but will also remain stubbornly high for the next several years. The reason being that employers will not need to replenish their workforce to pre-COVID levels. This of course will have the biggest impact on the lower rungs of the socioeconomic spectrum, as they are usually the last hired and first to be fired.

Thirty Million and Counting



Gold is going to enter the bubble territory in the next few months, as those who watch monetary policy will be on the hunt for eventual inflation. This time, their confidence is high that they will find it. To the skeptics, we say that you don't need to believe it for it to be true. As one great investor we know once said, 'I'm not going to own it, but I can see why someone would'.

Next Stop \$2,000 an Ounce



Not that retail needed another reason to be riding the pain train, but this time we might actually see the giant flush necessary to finally clear out the inventory of retailers that were sick, yet not quite on life support. And the bubble in ‘Zombie Malls’ and strip centers is going to only get bigger. Next up, is the even higher end of the market with anchor tenants like Nordstrom.

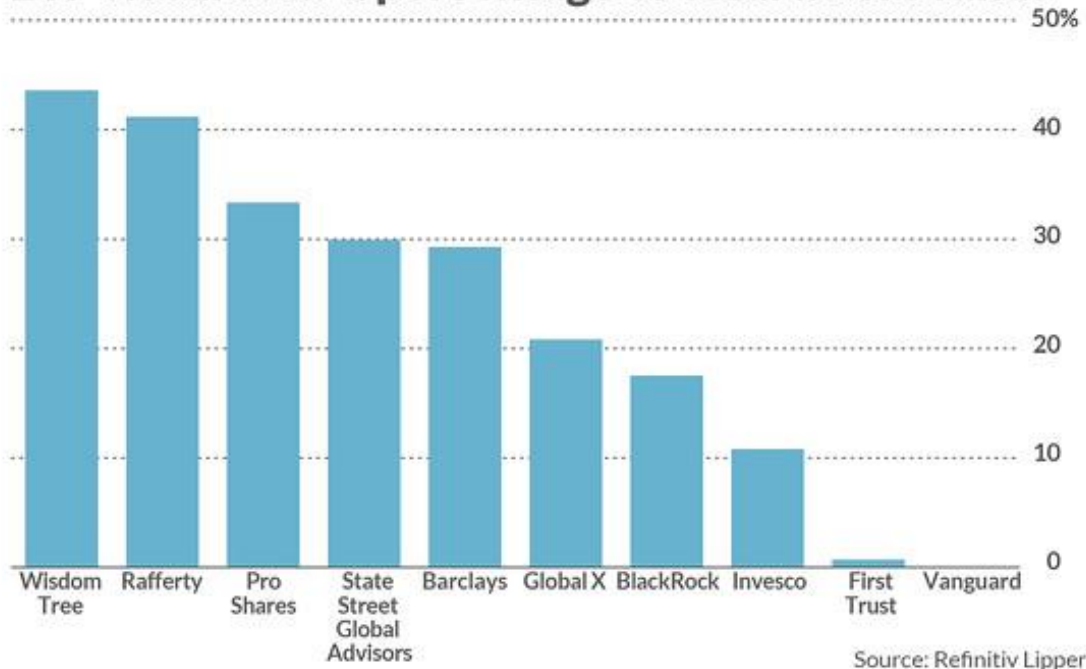
Santa Barbara 1990-2020



Just like malls and large format retailers, mutual funds and ETFs have entered their own era of 'Zombie-dome'. Fortunately for investors, it appears as if this time the death rate may spike, and fund boards will start pulling out the ivory handled pistol and put more down, because nobody wins with an overstocked market of inventory, most of which is obsolete.

Die...Please

ETF closures as a percentage of total active funds



In related news, there is about to be a bubble in former Nuveen employees, as last week the parent company TIAA-CREFF announced that 75% of staff would be offered buyout packages. The incentive to find something else to do will be robust, as it includes one to two years' worth of salary and some bonus money. I got mine in 2013, and while it was less 'buyout' and more 'thanks for playing', the parachute was indeed meaningful. Good luck out there, and welcome to the family.

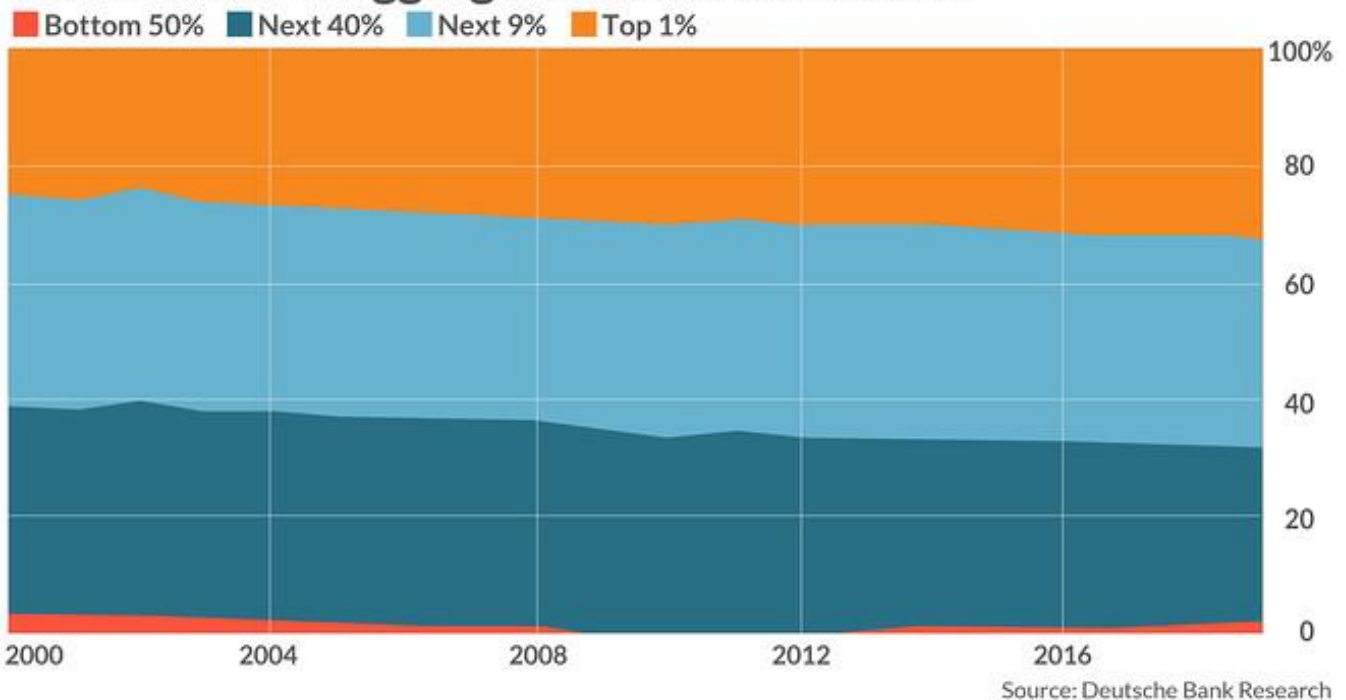
Go Cubs, Go?



Both the income and wealth gap are about to go into the bubble stratosphere, as an already stressed situation is about to get even more so. Part of this reason is that the Fed is good at supporting asset prices. That said, if you are on the lower rungs and own no assets, reflation doesn't do you much good, especially now. The chart below shows that assets on the books for the bottom 50% went to zero following the Great Recession. That is likely to happen again, wiping out a decade of gains.

10% Own's 70%

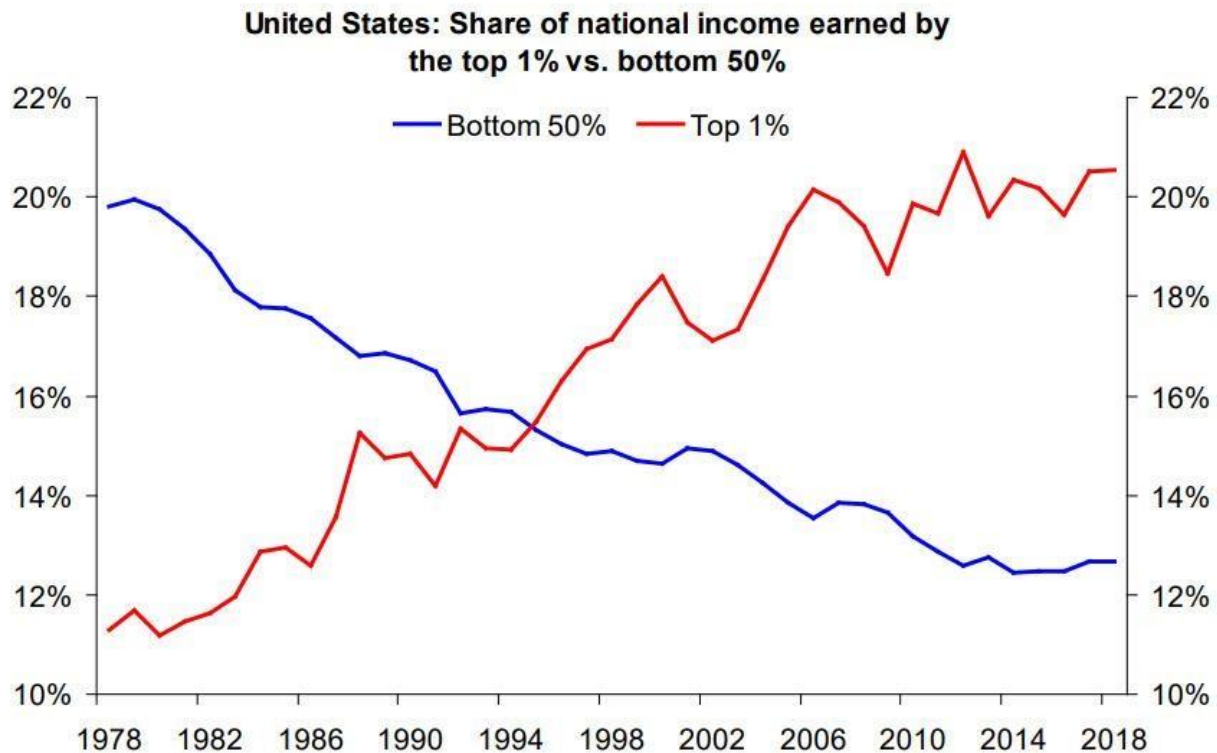
Distribution of aggregate household wealth



Similar to asset ownership, income is also going to be see a bubble accelerate. We are all for someone making a buck, we simply wonder what it means long-term for the strength and vitality of the economy. Consumer spending accounts for 70% of the GDP. If the top 1% holds onto their wallets a little tighter, and the bottom 50% hang on for dear life, what does GDP look like out into the future? If 2% was the average before all hell broke loose, imagine what it settles out at after?

Delta Widening

Share of income earned



Source: Saez and Zucman (2019), <https://taxjusticenow.org>, DB Global Research

Anything that can more easily be delivered to your home, versus requiring a trip to the market, is going to enter an even bigger bull market than when the downturn started. Prior to COVID, there was a giant shift away from physical commerce to e-commerce, and that is only going to accelerate, and logistics centers are at the center of this extended bull market.

Boxes, Boxes, Everywhere



Food delivery was already becoming a huge market, and that is only going to accelerate from here. Now you have DoorDash, Uber Eats, Grubhub, and Postmates to deliver breakfast, lunch, and dinner. We aren't sure there is enough margin there to go around, time will tell. There is also now a rush to get you groceries and other unprepared food items. Case in point, there are now a handful of pop-up frozen meat purveyors looking to move bovine, fowl, and swine inventory that has been building up. Included in those is HolyGrailSteak, Steaks & Game, and Crowd Cow.

Bovine-Palooza



Diversions

As the theme for This Week in the Markets was the rise of bubbles, both good and bad, we thought we would end with ideas on 'living your best (mobile) life' once the fog of COVID war lifts. God willing, there is a new bull market in YOLO inspired living and adventures.

New Day Coming



Get out there on the road, and start tripping, metaphorically of course. With air travel in question for a while, the hip kids are thinking about getting behind the wheel of something that can sleep a few friends and store a cold adult beverage or two. Those with the dough, and the interest in something new, are flocking to the uber plush Mercedes-Benz versions of small recreational vehicles.

Clean Mobil Living



With our money, we prefer something with a little patina and perhaps a dent or two in the bumper. For that, you start with an old school Airstream trailer and move on up with the interiors. While a bit much for our tastes, it is still cool to see what Ralph Lauren was able to do with a custom interior.

Rancho Relaxo



We would be remiss if we did not include for our millennial readers the concept of chucking it all for a while and grabbing yourself a ‘adventure van’. Some are far nicer than others, including versions of the modified Sprinter Van. But for those looking to throw caution to the wind and jump in something with more stories in it than Chateau Marmont, there is this beauty. If these two aren’t living their own special dream, we don’t know who is!

‘On the road again...’



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